

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 L-03 H-01 PA-01
PRS-01 SP-02 USIA-06 AID-05 EB-07 NSC-05 EPG-02
SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03
INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /105 W
-----120851Z 047845 /10

R 120659Z MAY 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 9613

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FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 8/12/77

TAGS: EAID, EFIN

SUBJECT: ADB TECHNICAL ASSISTANCE OPERATIONS

REF: (A) MANILA 6327, (B) TRSY 77-61

SUMMARY: ADB BOARD OF DIRECTORS DISCUSSED WORKING PAPER 4-77 ON TECHNICAL ASSISTANCE (TA) OPERATIONS ON MAY 10. MANAGEMENT'S RECOMMENDATIONS WERE ACCEPTED WITH SOME MINOR MODIFICATIONS, EXCEPT FOR PARA. 56 DEALING WITH FINANCING OF TA PROGRAM WHERE MAJORITY OF BOARD FAVORED SOFTER LOAN TERMS. MANAGEMENT WILL PRODUCE BRIEF PAPER SUMMARIZING PROPOSED CHANGES, WHICH WILL IN TURN BE SUBJECT OF FURTHER BOARD CONSIDERATION. NAC GUIDANCE REQUESTED. END SUMMARY.

1. ADB BOARD OF DIRECTORS DISCUSSED WORKING PAPER 4-77 ON TECHNICAL ASSISTANCE (TA) OPERATIONS IN FOUR-HOUR SESSION ON MAY 10. AT OUTSET OF DISCUSSIONS, SEVERAL DMC DIRECTORS EXPRESSED DISAPPOINTMENT WITH PAPER WHICH THEY CONTENDED
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WAS NOT SUFFICIENTLY ATTUNED TO NEEDS OF AID RECIPIENT COUNTRIES. SRI LANKA ALTERNATE DIRECTOR (WHO WILL BECOME DIRECTOR JUNE 1), MOST VOCIFEROUS OF THIS GROUP, CHARGED THAT PAPER DID NOT REFLECT GENERALLY LIBERAL VIEWS OF GOVERNORS HEARD AT RECENT ANNUAL MEETING. REIMBURSEMENT FEATURE OF CERTAIN TA GRANTS (PAAS. 44 AND 58 OF WORKING PAPER) WAS SPECIFICALLY CITED IN THIS CONTEXT.

2. U.S. ALTERNATE DIRECTOR AND JAPANESE AND AUSTRALIAN DIRECTORS, ON OTHER HAND, MENTIONED NEED FOR CAUTION REGARDING POSSIBLE IMPACT OF TA OOPERATIONS ON BANK'S INCOME POSITION. AUSTRALIAN DIRECTOR NOTED POSSIBILITY THAT NET INCOME MIGHT WELL DECLINE IN 1977 OWING TO OTHER FACORS (LOW RATE OF DISBURSEMENTS, POSSIBLY LOWER AVERAGE YIELD ON INVESTMENTS), AND THAT THIS WAS ADDED REASON FOR CAUTION WITH RESPECT TO LIBERALIZATION OF TA POLICIES. U.S. ALTERNATE DIRECTOR CONVEYED INSTRUCTIONS CONTAINED REF B.

3. ON SOMEWHAT DIFFERENT TACK, UK DIRCTOR, SUPPORTED INITIALLY BY SRI LANKA ALTERNATE, DUTCH ALTERNATE AND BANGLADESH DIRECTORS, DECRIED PAPER'S FAILURE TO DISCRIMINATE BETWEEN POOREST COUNTRIES(DEFINED AS ADB AND BLEND BORROWERS) AND RELATIVELY WELL-OFF (OC) COUNTRIES. SPECIFICALLY CITED WAS PROPOSED FLAT \$150,000 GRANT LIMIT. IT WAS FELT THAT LIMIT SHOULD BE HIGHER FOR POOREST COUNTRIES WHICH WOULD ACCORD BOTH WITH IBRD PRACTICE AND WITH BANK'S OWN PREVIOUS WORKING PAPER ON THIS SUBJECT (ADB WORKING PAPER 9-76). AUSTRALIAN AND PHILIPPINE DIRECTORS, ON OTHER HAND, EXPRESSED APPROVAL OF FAILURE TO DISCRIMINATE. ADB VICE PRESIDENT DEFENDED MANAGEMENT'S EUIFT ON GRANT LIMIT BY NOTING THAT WHILE HIGHER LIMIT FOR POOREST COUNTRIES HAD BEEN DROPPED, NEVERTHELSS, LIMIT FOR ALL HAD BEEN RAISED (FROM PROPOSED \$100,000 TO \$150,000). IN SHOWDOWN ON ISSUE OF GRANT LIMIT, SRI LANKA ALTERNATE DIRECTOR HELD OUT FOR LIMITED OFFICIAL USE

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\$200,000 LIMIT FOR ADB COUNTRIES; UK DIRECTOR OPTED FOR 100-150 SPLIT AS BETWEEN OC AND ADF COUNTRIES; AND DUTCH ALTERNATE DIRECTOR AGREED TO GO ALONG WITH MAJORITY FAVORING FLAT \$150,000.

4. CARRYING DISCRIMINATION ARGUMENT A STEP FURTHER, INDIAN ALTERNATE DIRECTOR PROPOSED THAT BANK'S TA OPERATIONS BE SUBJECT TO SET ANNUAL QUOTAS WHEREBY ADB COUNTRIES WOULD BE ASSURED HIGHER SHARE OF TA RESOURCES. KOREAN DIRECTOR EXPRESSED OPPOSITION TO THIS, NOTING THAT ADF COUNTRIES WERE RECEIVING BY FAR LARGEST SHARE OF TA RESOURCES ANYWAY. HE WAS SUPPORTED BY U.S. ALTERNATE DIRECTOR, WHO NOTED PRACTICAL DIFFICULTIES IN ARTIFICAL DIVISIONS OF THIS SORT, AND DUTCH ALTERNATE DIRECTOR WHO HAD INITIALLY BEEN ON OTHER SIDE OF ARGUMENT WHEN ISSUE WAS FLAT GRANT LIMIT.

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5. SRI LANKA ALTERNATE DIRECTOR RAISED MATTER OF HIGH CONSULTANT COSTS AND EXPRESSED DISSATISFACTION WITH PAPER'S FAILURE TO ADDRESS THIS SUBJECT. HE WAS SUPPORTED BY KOREAN DIRECTOR, WHO OBSERVED THAT IN ABSENCE OF COMPLETE CHANGE OF PROCEDURES, WHICH THROUGH BANK'S GUIDELINES ON USES OF CONSULTANTS MANDATE USE OF "EXPERIENCED" CONSULTANTS, "LITTLE GUY" WILL NEVER GET A CHANGE. NO OTHER SUPPORT WAS VOICED FOR THIS POSITION. NEVERTHELESS, VICE PRESIDENT AGREED TO RESERVE PARA. 16, PARTICULARLY PASSAGE REFERRING TO "NORMAL SELECTION PROCEDURES."

6. THERE WAS EXTENDED DEBATE ON PROPOSED PARA. 58, REIMBURSEMENT OF TA GRANT. AS NOTED PARA. 1, DMC DIRECTORS GENERALLY OPPOSED PRINCIPLE OF REIMBURSEMENT, AS DID UK DIRECTOR WHO EXPRESSED VIEW THAT IF THE EXTERNAL AID SOURCE HAPPENED TO BE A DONOR TO BANK'S TASF (SAY, THE UK), IT WOULD NEVER AGREE TO PAYING AGS N FOR BANK'S TA IN CASE OF A PROJECT IT WAS FINANCING. THERE WAS FURTHER
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DEBATE ON EXACT MEANING OF PARA. 58(II), CENTERING ON EXTENT OF RECIPIENT GOVT'S LIABILITY. DESPITE MISGIVINGS

OF SOME, BOARD AS WHOLE SEEMED SATISFIED WITH VICE PRESIDENT'S OBSERVATION THAT MOST EXTERNAL DONORS COULD BE COUNTED ON TO SHOW GENEROSITY IN COVERING THESE COSTS, AND PROPOSED CHANGES IN PARA. WERE CONFINED TO REVISED WORDING (SEE PARA. 10B BELOW).

7. PARA. 57 WAS CRITICIZED BY SEVERAL DMC DIRECTORS, WHO IN GENERAL PROFESSED TO SEE NO NEED FOR ELABORATE PROCEDURES IN APPROVING RETROACTIVE FINANCING. BANK'S FINDING THAT PROJECT WAS PRIMA FACIE VIABLE WAS FELT TO BE SUFFICIENT. MAJORITY AGREED TO ELIMINATE PROPOSED PARA. 57B WHICH CALLED FOR PRIOR BOARD APPROVAL ON NO OBJECTION BASIS.

8. SEVERAL DIRECTORS FAVORED RAISING PRESIDENT'S DISCRETIONARY AUTHORITY (I.E. AMOUNT OF TA BELOW WHICH HE MAY APPROVE TA ON HIS OWN AUTHORITY WITHOUT REFERRAL TO BOARD) TO \$150,000 RATHER THAN \$100,000 AS PROPOSED IN PAPER (PARA. 63). ISSUE WAS SETTLED IN FAVOR OF \$100,000 ON PRESIDENT'S OWN EXPRESSED PREFERENCE FOR THAT FIGURE.

9. PARA. 56, FINANCING OF TA PROGRAM, WAS SUBJECT OF DAY'S LONGEST DEBATE. DMC DIRECTORS WERE UNANIMOUS IN VIEW THAT TEN YEARS WAS TOO SHORT A MATURITY FOR THIS FACILITY. INDIAN ALTERNATE DIRECTOR WAS QUITE PERSUASIVE TO EFFECT THAT AS A PROGRAM LOAN, PROPOSED FACILITY IS CLOSER TO A LOAN THAN A TA PROJECT IN CHARACTER AND TERMS SHOULD REFLECT THAT FACT. MOREOVER, HE EXPRESSED CONVICTION THAT, IN FACT, NO ADF COUNTRY WOULD USE FACILITY ON PROPOSED TERMS; THEY WOULD PASS IT UP AND AWAIT REGULAR TA FINANCING. MAJORITY SENTIMENT SETTLED ON 40 YEAR MATURITY, TEN YEAR GRACE PERIOD FOR ADF COUNTRIES (I.E. REGULAR ADF LOAN TERMS), RELATIVELY EARLY. MOST OF DISCUSSION TURNED ON TERMS FOR OC BORROWERS, WHETHER RELIMITED OFFICIAL USE

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GULAR OC MATURITY (AND, IF SO, WHAT IS "REGULAR" OC MATURITY), TEN YEARS AS PROPOSED, OR SOMETHING IN BETWEEN. IN FINAL SHOWDOWN, MAJORITY FAVORED 15 YEAR MATURITY FOR OC BORROWERS. JAPANESE AND AUSTRALIAN DIRECTORS, AS WELL AS U.S. ALTERNATE DIRECTOR, SAID THEY WOULD STICK WITH PARA. 56 AS PROPOSED IN PAPER (INCLUDING TEN YEAR MATURITY FOR ADF AS WELL AS OC BORROWERS) PENDING INSTRUCTION FROM THEIR GOVERNMENTS.

10. FOLLOWING IS SUMMARY OF PROPOSED CHANGES IN TA PAPER BASED ON NOTES TAKEN AT MEETING (N.B.: ACTUAL PROPOSED CHANGES, TO APPEAR IN FORTHCOMING BOARD PAPER, MAY DIFFER SLIGHTLY AS TO WORDING):

- (A) PARA. 57, RETROACTIVE FINANCING - ELIMINATE SUB-PARA.
- (B) CALLING FOR PRIOR APPROVAL BY BOARD.

(B) PARA. 58, REIMBURSEMENT OF TA GRANT - AMEND SECTION (II)
AS FOLLOWS: FOURTH LINE FROM BOTTOM, SUBSTITUTE "MAKE EVERY
EFFORT" FOR "UNDERTAKE;" ADD TO END OF SECTION, "IN SUCH CIR-
CUMSTANCES WHERE REIMBURSEMENT NOT OBTAINED, BOARD WOULD BE
INFORMED."

(C) PARA. 56? FINANCING OF TA PROGRAM - CHAGE MATURITIES TO
40 YEARS FOR ADF COUNTRIES, 15 YEARS FOR OC COUNTRIES.

(D) PARA. 61, FINANCING OF LOCAL CURRENCY EXPENDITURES -
RESERVE PARA. FOR FURTHER CONSIDERATION OF WORDS, "NORMAL
SLECTION PROCEDURES."

(E) PARA. 63, PRESIDENT'S DELEGATED AUTHORITY - AMEND
LINES 3 AND 4 TO, ". . . PROVIDED SUCH ASSISTANCE IS
CONSISTENT WITH BANK'S TA POLICIES."

11. MANAGEMENT WILL PRODUCE BRIEF PAPER REFLECTING PROPOSED
CHANGES, WHICH WILL THEN BE REFERRED FOR BOARD CONSIDERATION.
PAPER WILL BE POUCHED WHEN AVAILABLE; HOWEVER, BOARD MEMBERS
WILL HAVE CONSIDERABLY LESS THAN CUSTOMARY THREE WEEKS FOR
CONSIDERATION. NAC GUIDANCE REQUESTED SOONEST, ESPECIALLY
ON MATTER OF PROPOSED CHANGE IN TERMS FOR FINANCING OF TA
PROGRAM (PARA. 10C ABOVE).

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Message Attributes

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